



Final Minutes
Endowment Fund Investment Regular Board Meeting
November 15, 2016

A regular meeting of the Endowment Fund Investment Board (Board) was held in the Board Conference Room at 816 W. Bannock Street, Ste. 301, Boise, Idaho on November 15, 2016. Prior to the meeting, the EFIB attended the Land Board meeting and made its regular annual report. Chairman M. Dean Buffington called the meeting to order at 9:37 a.m. and recognized that a quorum was present.

Member's Present:

Dean Buffington
Gavin Gee
Representative Anderson (by phone)
Warren Bakes
Gary Mahn
Richelle Sugiyama

Member's Absent:

Senator Winder

Staff Present:

Larry Johnson
Chris Halvorson
Michelle Watts

Legal Counsel:

Julie Weaver (left at 10:55 a.m.)

Guests:

Janet Becker-Wold, Callan (departed at 1:15pm)
Nick Bratt, Lazard Asset Mgt.
Kerel Nurse, Lazard Asset Mgt.
Michael Pearson – IFG (arrived at 10:20 a.m.)
Patrick Hodges – SCO (arrived at Noon)
Brandon Purcell – SCO (arrived at Noon)
Edelene Ohman – STO (arrived at Noon)
Tom Schultz – IDL (arrived at 12:07 a.m., left at 1:01 p.m.)
Tom Kealey – former bd. member (arrived at 11:28 a.m.)
Sue Simmons – former bd. member (arrived at 11:21 a.m.)

Hard copies of board materials were mailed and delivered six days prior to the scheduled board meeting and a meeting notice and agenda was posted on the door of the EFIB office beginning November 8, 2016.

Mr. Buffington asked that the agenda of the meeting be amended to add a discussion on a new budget line item related to employee transition. The change was approved by unanimous consent.

Board Meeting Minutes:

Ms. Sugiyama made a motion to approve the minutes of the August 11, 2016 regular meeting. The motion was seconded by Mr. Gee and approved unanimously.

Mr. Bakes made a motion to approve the minutes of the September 7, 2016 special meeting. The motion was seconded by Mr. Mahn and approved unanimously.

Recent Endowment Fund Results

Mr. Halvorson reported the month-to-date performance of the plans managed by the EFIB.

Capital Market Assumptions

Mr. Halvorson presented information on Capital Market assumptions from various sources. Most forecasters indicate that equities will outperform bonds. In addition, Mr. Halvorson presented a report from an annual survey of 86 funds done by RVK, an investment consulting firm. The document analyzed public funds, most of which are pension funds. Generally, the median results for this sample group confirm that the Callan public fund universe, which is available quarterly and more promptly than this annual survey, is representative of public fund results. The RVK survey included a fee comparison, which showed the management and administrative costs of the Idaho Endowment Fund are generally in line with similar funds.

Mr. Halvorson updated the board on the recent portfolio rebalancing as well. The process was completed on October 1 with the full funding of the new Real Estate mandates.

Fund Performance – 3rd quarter (Janet Becker-Wold, Callan)

Endowment Fund: The endowment portfolio posted a 3.7% return for the quarter ended September 30, 2016, even with benchmark. Relative to public fund peers, the fund ranked 32nd percentile for the quarter, 20th for the year ended September 30 (16th percentile relative to endowments and foundations) and 5th percentile (public funds) for the last 10 years.

Representative Anderson's connection was lost at 10:10am

State Insurance Fund: The SIF portfolio posted a 0.9% return for the quarter ended June 30, 2016, 5.0% for the year and 3.8% for the last five years.

Ms. Becker-Wold discussed International Value Manager NFJ who has underperformed their benchmark for the last five years. She reviewed an analysis by Callan's Manager Research Group and summarized her observations from her recent visit to NFJ's office. Ms. Becker-Wold recommended retaining NFJ commenting that performance should improve as interest rates normalize.

Ms. Becker-Wold also reviewed the compliance report.

Board compensation proposed legislation

Mr. Johnson discussed proposed legislation that would change board compensation from a salary to an honorarium to improve recruitment and retention of board members. Technically that would mean board members are no longer eligible for PERSI benefits. Members of PERSI are not eligible to take a tax deduction for contributions to an IRA account. The value of the deduction is often greater than the pension benefit.

Ms. Sugiyama made a motion to direct staff to submit the proposed legislation. The motion was seconded by Mr. Bakes and approved unanimously.

In the interest of recruiting new members, the Board directed Mr. Johnson to examine compensation levels for EFIB members relative to other state boards and commissions, including pay differentials to reflect the additional duties of the chair.

Break at 10:40a.m.

Board reconvened at 10:53a.m. Representative Anderson rejoined the meeting by phone.

Investment Policy – Revisions

Mr. Halvorson proposed minor edits to the Investment Policy, driven primarily by the board approved structure study.

Ms. Sugiyama made a motion to approve the proposed revisions to the Investment Policy. The motion was seconded by Mr. Mahn and approved unanimously.

Asset Consultant Review Policy

Mr. Halvorson presented a new policy on investment consultant services. This policy codifies the board's past practice of evaluating the services provided by an investment consultant on a periodic basis and requires a formal RFP at least every ten years.

Mr. Mahn made a motion to approve the new policy. The motion was seconded by Mr. Gee and approved unanimously.

Proposed Budget Request

Mr. Johnson recommended the board consider a budget request allow for overlap in service with his successor just before his retirement some time in FY 2018 (probably around December). He suggested the request include consumption of his remaining vacation leave off and on during the transition time to allow a more measured transfer of knowledge.

Ms. Sugiyama suggested Staff investigate, before Mr. Johnson's retirement, analytics systems that could provide redundancy in accounting and performance reporting as a way to ensure a smooth transition in those areas.

Mr. Gee made a motion to approve a new, one-time, FY 2018 budget line item of \$36,800 for employee transition. The motion was seconded by Ms. Sugiyama and approved unanimously.

The EFIB also discussed the competitiveness of the salary that could be offered to a new incumbent. The Board asked Mr. Johnson to summarize data from a recent national survey of public plan investment officer compensation and solicit the counsel of the Division of Financial Management regarding increased on-going funding for the salary of the new Manager of Investments.

Former Board Member Recognition

The EFIB recognized former board members Sue Simmons and Tom Kealey for their years of service. Chairman Buffington presented a commemorative plaque and a letter of thanks from the members of the Board of Land Commissioners.

EFIB Staff Reports

Mr. Halvorson reviewed the recent performance reports of the Parks and Recreation, Bunker Hill Water Treatment, and Fish & Game Wildlife endowments. Ms. Watts reported on the Expenses vs. Budget, Coverage Ratio, YTD Land Revenues, Housing Starts, Inland Lumber Price, Stumpage Price, and the quarterly report on the School Bond Credit Enhancement program.

Mr. Johnson reviewed the Gift Log and discussed Upcoming Issues including the February 2017 board meeting agenda and the 2017 JFAC presentation. The Board asked that a succession planning discussion be added to the February agenda.

Representative Anderson left the meeting at 12:15pm

Lazard Global Thematic Presentation

Nick Bratt, Portfolio Manager and Kerel Nurse, Institutional Client Services, from Lazard updated the board on the investment performance of their Global Thematic Equity strategy. Additionally, Lazard discussed their investment process and current investment themes and answered questions from board members.

Mr. Gee left the meeting at 12:50pm

Adjournment

There being no further business to come before the Board, Mr. Buffington recognized the loss of quorum and declared the meeting adjourned.

The meeting adjourned at 1:08 p.m.